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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

WASHINGTON, DC 20510-6350

March 27, 2002

The Honorable Don Siegelman
Governor
State of Alabama
600 Dexter Avenue
Room N-104
Montgomery, AL 36130-2751

Dear Governor Siegelman:

During my recent tenure as Chairman of the U.S. Senate Committee on Small Business, I was pleased to craft, and prompt the Congress to adopt, a new approach to aid economic development. This program, the Historically Underutilized Business Zone (HUBZone) program, directs a portion of the Federal government's contracting dollars to the nation's most distressed areas. I hope this will help create jobs and increase incomes in areas currently out of the nation's economic mainstream. To be effective in your State, however, the program needs your help.

First, a bit of background. I am sure you share my frustration that some of our nation's most distressed areas resist our best efforts to reinvigorate them. Blighted inner cities, poor rural counties, and Indian reservations seem to remain poor year in and year out, decade in and decade out. Investment of billions of taxpayer funds does not seem to be enough to jump-start the economic engines in these areas.

Increasingly, I am convinced that small business must play a central role in getting these communities moving again. It is too easy sometimes to focus on high-profile efforts to attract a large firm with tax incentives, infrastructure investments, and so forth. However, if the large plant subsequently fails, the community stagnates again. In fact, sometimes the community finds itself worse-off, thanks to long-term tax abatements that remove valuable property from its tax rolls.

Only a diversified base of small firms can help a community's redevelopment efforts survive the ups and downs of the economic cycle. A neighborhood with twenty small firms will not disintegrate if a couple of them fail during a recession. "Don't put all your eggs in one basket" is an old cliché, but it expresses a lot of wisdom.

However, I can understand why small businesses would be reluctant to move into a blighted area. Consider this problem from the viewpoint of the small business owner. Why would he or she locate a small firm in a distressed area without an established base of customers? Why move to a community that does not have a regular stream of customers walking by, ready to stop in and buy goods or services? That is the problem the HUBZone program seeks to address.

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The HUBZone program recognizes that the Federal government is a major customer. Every year, the Federal government purchases about \$180 to \$190 billion worth of goods and services. If Federal purchasers award some of their contracts to firms located in distressed areas, they become a customer base for these areas that currently lack them. As these small firms establish themselves and stabilize their revenues, Federal contracts can give them an income stream while they establish a customer base among private-sector clients.

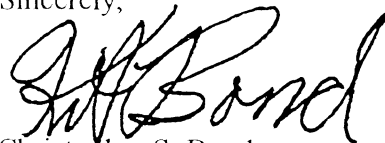
The HUBZone program seeks to direct a small fraction of Federal contracts to small firms in the nation's most challenging communities. If a firm is willing to locate its principal office in a HUBZone and hire 35% of its employees from a HUBZone, it can get special competitive advantages in winning Federal contracts. Locating in and hiring from a HUBZone helps ensure the benefits of the program flow directly into the most needy communities in America.

Now, I need your help. This program is under-used. The program is still not achieving its full level of activity in generating hope and opportunity. In Fiscal Year 2000 (the most recent year for which numbers are available), about 0.3% of Federal contract dollars were awarded through the HUBZone program, one-fifth of the 1.5% goal established by law. Opportunity is being lost because potential HUBZone firms do not know about the program, and because Federal contracting officers have not felt sufficient pressure to carry it out every day.

As part of your responsibility to promote economic development in your State, could you help educate your constituents on how HUBZones can help them help their communities? For example, I suggest that you invite your local Small Business Administration's HUBZone representative to speak about the program and its benefits whenever you hold economic development conferences. I encourage you to invite Federal contracting officers to appear at industry fairs to tell how they are using the HUBZone program to help your State's small businesses. Finally, I urge you to contact your State's local economic development officials to inform them of the HUBZone program's benefits.

The HUBZone program is another tool in the toolbox to help rebuild our nation's communities. For more information on how this tool can be helpful, I refer you to the enclosed article, written by SBA's HUBZone administrator, from *Contract Management* magazine. If you have further questions about this program, please contact Cordell Smith of my Small Business Committee staff on (202) 224-

Sincerely,



Christopher S. Bond
Ranking Member

Enclosure